GOVERNMENT OF INDIA
PANCHAYATI RAJ
LOK SABHA

UNSTARRED QUESTION NO:4368
ANSWERED ON:21.04.2005
INTERNAL AUDIT SYSTEM IN PANCHAYATI RAJ SYSTEM
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Will the Minister of PANCHAYATI RAJ be pleased to state:

(a) whether the Government proposes to introduce internal audit system at the level of Panchayati Raj System; and

(b) if so, the steps taken by the Government to institutionalize the said system at State and Centre level ?

Answer

MINISTER OF PANCHAYATI RAJ (SHRI MANI SHANKAR AIYAR)

(a) & (b) Panchayati Raj is a State subject. The Ministry of Panchayati Raj is responsible for the work of advocacy for and monitoring of, the implementation of the Constitution (73rd Amendment) Act 1992 to ensure that the State Panchayati Raj Acts adhere to the provisions of the Act and to endeavour to secure its implementation in letter and spirit. As per Article 243 of the Constitution `The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts``. Therefore, it is for the State Governments to introduce a system of internal audit and further to identify the agency to get the budget/funds of Panchayats audited. The Guidelines issued by the Ministry of Finance for the utilization oflocal bodies grants recommended by the Eleventh Finance Commission (2000-01 to 2004-05) provide that the C&AG shall be responsible for exercising control and supervision over the proper maintenance of accounts and their audit for all,the three tiers/levels of PRIs and ULBs. State Governments should send a request under section 20(1) of the CAG(DPC) Act, for this purpose. As per the Guidelines, the format for the preparation of budgets and for keeping accounts for local bodies shall be as prescribed by the C&AG. This subject has been discussed further in the Sixth Round Table of Ministers in charge of Panchayati Raj at Guwahati on 27-28 November 2004. Ministers in charge of Panchayati Raj of the States/UT Administration and their representatives,bearing in mind the spirit of cooperative federalism which must inform the effective implementation of Panchayati Raj,as set out in Part IX of the Constitution of India and related provisions, agreed to recommend to their respective Governments, for joint acceptance by the Centre and the States, the conclusions reached at the meeting. A copy of the conclusions is enclosed at the Annex.

In para (iv) of the conclusions of the sixth Round Table, under the heading `Audit`, it has been recommended that there is need -to establish an internal audit system at every tier of the Panchayati Raj System and to regard C&AG audit (or audit by bodies certified or technically guided by C&AG) as complementary external audit.

Since local bodies are now institutions of local self-government in terms of Article 243G of the Constitution, it is necessary to upgrade the work of the Director of Local Fund Audit (DLFA) and other similar bodies to the level required by Constitutional imperatives and, to this end, for the DLFA and other similar bodies to work in concert with the Comptroller & Auditor General (C&AG) of India, it was resolved that these State Governments which have not yet availed of the arrangements for bringing the CAG into the exercise of accounting and audit, including the C&AG`s Technical Guidance and Supervision scheme for the Panchayati Raj Institutions were invited to, do so.

SIXTH ROUND TABLE OF MINISTERS IN-CHARGE OF PANCHAYATI RAJ GUWAHATI, 27-28 NOVEMBER 2004

Ministers in-charge of Panchayati Raj, and their representatives, bearing in mind the spirit of cooperative federalism which must inform the effective implementation of Panchayati Raj as set out in Part IX of the Constitution of India and related provisions;, agreed to recommend to their respective Governments, for joint acceptance by the Centre and the States, the following points of action:

Elections

(i) The Indian voter is one and indivisible. The principle of parity between parliamentary and assembly elections, on the one hand and panchayat elections, on the other, must therefore be maintained, especially as it is noticed that people`s participation in panchayat elections is substantial and generally equal to or higher than in parliamentary / assembly elections. Thus, for example, even in States with difficult geographical terrain, 88% of the electorate has participated in panchayat elections in Himachal Pradesh and 83.5% has participated in Sikkim.

(ii) While all matters relating to panchayat elections have been vested by the Constitution in State legislatures/ governments, there is a need to work towards commonality, if not uniformity, in election procedures and provisions. To this end, it would desirable to vest all responsibilities for the election process in State Election Commissions rather than splitting these up, including:

(a) preparation of electoral rolls;

(b) delimitation of constituencies;

(c) reservations and rotations;

(d) qualifications of candidates;

(e) conduct of elections; and

(f) functioning as the first stage of adjudication in election disputes.

(iii) The Union Government might consider the preparation of a model code relating to the supervision, direction and conduct of elections to the Panchayati Raj Institutions (PRIs).

(iv) With a view to evolving a common electoral roll for all levels of elections, consultations between the Chief Election Commissioner (CEC)and the State Election Commissioners(SECs) might be encouraged with a view to resolving practical problems that might arise in the preparation, maintenance and updating of such electoral rolls for elections to be held at different times for different levels of Governments. The s panchayat and nagarpalika wards should be regarded as the building blocks for electoral rolls for all levels of election.

(v) Consideration may be given to incorporating in the laws pertaining to PR elections the same provisions of disclosure as apply to Parliament and State Assembly Elections.

(vi) The Election Commission of India (ECI) might be approached for establishing a forum,for institutional- interaction between SECs and ECI on issues such as directives being issued by the State Election Commission; the use of radio broadcasting for disseminating election-related information; anomalies arising out of migration; linking delimitation with census operation; uniformity in service condition of SECs; and proposals like sealing the electronic chip in the Electronic â€" Voting Machine (EVM), and not the machine itseli, for evidentiary purposes, thus leaving the machine free for use in panchayat elections?

(vii) States may consider according the same salary and emoluments to `State Election Commissioners as High Court Judges are entitled to.

(viii) It is recommended that the Delimitation Commission be regularly in contact with the SECs, who are members of the Commission, to sort out practical difficulties arising out of delimitation process.

(ix) To facilitate the use of Electronic Voting Machines (EVMs) in panchayat elections, the Union Government in consultation with Election Commission of India and the SECs, might consider issues relating to the funding of the purchase of EVMs for the use of State Election Commissions.

(x) Elections to District Planning Committees provided for in Article 243ZD of the Constitution might also be brought within the purview of State Election Commissions to ensure full conformity with Constitutional provisions, which has not always been the case.

Audit

(i) Since local bodies are now institutions of local self-government, it is necessary to upgrade the work of the Director of Local Fund Audit(DLFA) and other similar bodies to the level required by Constitutional imperatives and, to this end, for DLFA and other similar bodies to work in concert with the Comptroller and Auditor General of India (C&AG).

(ii) In recognition of PRIs being institutions of local self-government, PRIs themselves should be associated with the preparation of standards and norms and the emphasis should be on fund management and fund tracking, rather than simply on fund flow, to ensure greater accountability.

(iii) In order to ensure that such audit contributes effectively to capping, reducing and eventually eliminating the scope for corruption in Panchayati Raj Institutions (PRIs), it is necessary thai audit & accounting standards appropriate to the work of the Panchayats be established and observed. These standards should be elementary, simple and easily comprehensible to the elected representatives, and should focus on:when transactions should be looked into; what should be monitored; how the transactions should be documented; and how they should be disclosed.

(iv) There is need to establish an internal audit system at every tier of the Panchayati Raj system and to regard C&AG audit (or audit by bodies certified or technically guided by C&AG) as complementary external audit.

(v) Audit, to be effective, might include the establishment of a National Accounting Standards Board (NASB) for local government accounts and be complemented by the establishment of audit commissions or similar such regulatory bodies at the State level.

(vi) Besides, arrangements may be made in State Legislatures for the establishment of Public Accounts Committees (PACs) specifically for PRIs or for the accounts of PRIs to be submitted to PR Committees of the State Legislatures. State level committees, as in Andhra Pradesh; for the settlement of audit paras may also be considered.

(vii) It may be useful to complement such institutional arrangements by legislating an appropriate Fiscal Responsibility Act for elected local authorities.

(viii) Outsourcing of accounting by such measures as village panchayats being authorized to employ certified Chartered Accountants against standard contracts might be considered.

(ix) The training of both officials and elected representatives in sound accounting and audit practices is a high priority. To this end, State Governments are invited to make full use of the Regional Training Institutes(RTIs) functioning` under the aegis of the C&AG, in particular the RTT at Kolkata which has been declared a centre of excellence; as also of the Institute of Public Auditors of India(IPAI). Substantial additional funding from the Union Government to facilitate training is a high priority.

(x) Those State Governments which have not as yet availed of the arrangements for bringing the C&AG into the exercise of accounting and audit, including the C&AG`s Technical Guidance and Supervision (TGS) Scheme for the PRIs, are invited to do so and the attention of all concerned is drawn to the publications of the Indian and Audit Accounts Department, in particular

a) Auditing Standards for PRIs and Urban Local Bodies

b) Guidelines for Certification of Audit of Accounts of PRIs

c) Training module of Audit of Gram Panchayats

(xi) Given the shortage of staff for undertaking formal accounts and audit work in the lakhs of Village Panchayats, thousands of Intermediate Panchayats and hundreds of Zilia Parishads around the country, it is essential that automation and computerization of accounts be undertaken with all deliberate speed and to this end software like the one being prepared by the Xavier Institute of Management, Bhubaneshwar for the Orissa State Government, for maintaining day-to-day accounts, which is expected to be ready by early 2004, be deployed as widely as possible everywhere.

(xii) Social audit is an important complement to formal audit and for the sound and` healthy development of Panchayali Raj, it is essential to establish a symbiotic relationship between social and formal audit.

(xiii) Social audit must necessarily be undertaken at the level of the Gram Sabha but might also be undertaken at higher levels of the Panchayat Raj system, as in West Bengal.

(xiv) For social audit to be effective and based on the best practices available in different States, consideration might be given to the preparation of Social Audit Policies for adoption by State Legislatures/Governments so as to provide a framework within which social audit is undertaken. Such Social Audit Policies may be targeted at facilitating popular participation in fighting corruption in Panchayats, as also complementing formal audit processes by quality assessment, ascertainment of preferences and the provision of. choices. At the same time, Social Audit Policies may provide for institutional measures to prevent needless harassment.

(xv) To ensure appropriate follow-up to issues raised through social audit,legislative bodies and regulatory authorities might treat social audit resolutions on par with formal audit paras to ensure consideration and disposal within a time-bound framework.

(xvi) Given the critical importance of total disclosure of information for effective social audit, States might consider passing Right to Information legislation, taking into account the legislation already on the books in such stales as Rajasthan.